

**CITY OF LAKE CITY**

Independent Auditors' Reports  
Basic Financial Statements and Supplementary Information  
Schedule of Findings

June 30, 2006

# CITY OF LAKE CITY

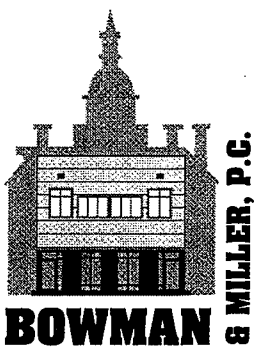
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# CITY OF LAKE CITY

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Merle Chamberlain	Mayor	Jan 2008
Gary Fahan	Mayor Pro Tem	Jan 2008
Richard Lamberty	Council Member	Jan 2008
Kim Kramer	Council Member	Jan 2008
Peggy Heim	Council Member	Jan 2010
Duane Sporleder	Council Member	Jan 2010
Judy Hungate	Administrator/Clerk	Jan 2007
Lois Smith	Treasurer	Jan 2007
David Willis	Attorney	Jan 2007



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Lake City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake City, as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2006 on our consideration of the City of Lake City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 22 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lake City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which is not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the two years ended June 30, 2004 and 2003 (none of which are presented herein) were audited by other auditors who expressed qualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
October 3, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Lake City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities increased 45.7%, or approximately \$420,000, from fiscal 2005 to fiscal 2006. Bond proceeds increased \$493,400, miscellaneous receipts increased approximately \$20,000 and operating grants, contributions and restricted interest decreased approximately \$119,000.
- Disbursements decreased 23.7%, or approximately \$233,000 in fiscal 2006 from fiscal 2005. Public safety, public works, culture and recreation, general government, debt service and capital projects decreased approximately \$113,000, \$39,000, \$28,000, \$2,000, \$4,000 and \$46,000, respectively.
- The City's total cash basis net assets increased 151.9%, or approximately \$580,600 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$588,900 and the business type activities decreased by approximately \$8,300.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system, solid waste and storm sewer. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, solid waste, and storm sewer funds.

The required financial statements for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$35,484 to \$624,445. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service	\$ 25,978	23,559
Operating grants, contributions and restricted interest	184,983	304,335
General receipts:		
Property tax	564,551	550,640
Unrestricted investment earnings	16,070	6,550
Bond proceeds	493,400	-
Other general receipts	53,551	33,450
Total receipts	<u>1,338,533</u>	<u>918,534</u>
Disbursements:		
Public safety	190,301	303,633
Public works	98,927	137,946
Culture and recreation	113,928	142,335
General government	110,734	112,907
Debt service	209,422	213,215
Capital projects	26,260	72,781
Total disbursements	<u>749,572</u>	<u>982,817</u>
Increase (decrease) in cash basis net assets	588,961	(64,283)
Cash basis net assets beginning of year	<u>35,484</u>	<u>99,767</u>
Cash basis net assets end of year	\$ <u>624,445</u>	<u>35,484</u>

The City's total receipts for governmental activities increased by 45.7% or \$420,000. The total cost of all programs and services decreased by approximately \$230,000, or 23.7%, with no new programs added. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation bonds for street construction.

The City increased property tax receipts for 2006 by an average of 2.5 percent.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 142,496	137,584
Sewer	129,626	126,001
Solid waste	114,001	108,460
Storm sewer	9,667	9,472
General receipts:		
Unrestricted interest on investments	194	132
Other general receipts	<u>8,961</u>	<u>12,749</u>
Total receipts	<u>404,945</u>	<u>394,398</u>
Disbursements:		
Water	175,255	167,707
Sewer	127,001	149,767
Solid waste	109,828	104,721
Storm sewer	<u>1,216</u>	<u>-</u>
Total disbursements	<u>413,300</u>	<u>422,195</u>
Decrease in cash balance	(8,355)	(27,797)
Cash basis net assets beginning of year	<u>346,681</u>	<u>374,478</u>
Cash basis net assets end of year	\$ <u>338,326</u>	<u>346,681</u>

Total business type activities receipts for the fiscal year were \$404,900 compared to \$394,400 last year. The cash balance decreased by approximately \$8,300 due primarily to improvements to the water plant.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As Lake City completed the year, its governmental funds reported a combined fund balance of \$624,445, a increase of \$589,000 from last year's total of \$35,484. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased \$37,976 from the prior year to \$111,688. The increase is primarily attributable to a decrease in disbursements for the fire department of approximately \$145,000
- The Road Use Tax Fund cash balance increased by \$54,039 from the prior year to \$171,360. The increase is primarily attributable to a decrease in disbursements for equipment and street maintenance.
- The Employee Retirement Fund cash balance increased \$25,332 from the prior year to \$64,227. The increase is due to an increase in property tax receipts of approximately \$48,000 and offset by increased disbursements for employee benefits of approximately \$23,000.
- The Emergency Fund received \$7,257 from property tax receipts which were transferred to the General Fund.

- The deficit Debt Service Fund cash balance was reduced by \$254 from the prior year to \$57,794.
- The Capital Projects Fund cash balance changed from a deficit balance of \$196,819 from the prior year to a surplus of \$270,321. Proceeds from bonds issued in the amount of \$493,400 was the primary reason for the change.

### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$29,952 to \$95,478, due primarily to increased disbursements for improvements to the water plant.
- The Sewer Fund cash balance increased by \$8,973 to \$158,825, due primarily to a decrease in disbursements for salaries.
- The Solid Waste Fund cash balance increased by \$4,173 to \$66,100. Both receipts and disbursements increased approximately the same as compared with the prior year.
- The Storm Sewer Fund cash balance increased by \$8,451 to \$17,923. Both receipts and disbursements increased approximately the same as compared with the prior year.

### BUDGETARY HIGHLIGHTS

Actual receipts exceeded the amount budgeted by \$72,408 and actual expenditures were \$426,570 less than the budgeted amount, resulting in \$498,978 available for use in future years.

### DEBT ADMINISTRATION

At June 30, 2006, the City had \$1,345,000 in bonds and other long-term debt, compared to \$1,013,355 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation bonds and notes	\$ 1,345,000	1,005,000
Fire truck lease	-	8,355
Total	\$ <u>1,345,000</u>	<u>1,013,355</u>

General obligation debt increased due to issuance of general obligation bonds in the amount of \$505,000. Principal payments on the bonds, notes and fire truck lease in the amount of \$173,355 were made during the fiscal year ended June 30, 2006.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The city's outstanding general obligation debt of \$1,345,000 is below its constitutional debt limit of \$2,222,305.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Lake City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities.

Amounts available for appropriation in the 2007 operating budget are \$1,256,676, a decrease of 20.9% from the final 2006 budget.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Judy Hungate, City Administrator, 105 North Center Street, Lake City, Iowa.

**CITY OF LAKE CITY**  
**Statement of Activities and Net Assets-Cash Basis**  
**As of and for the year ended June 30, 2006**

		Program Receipts	
		Charges for	Operating Grants,
	Disbursements	Service	Contributions and Restricted Interest
<b>Functions/Programs:</b>			
Governmental activities:			
Public safety	\$ 190,301	-	-
Public works	98,927	475	152,966
Culture and recreation	113,928	25,503	32,017
General government	110,734	-	-
Debt service	209,422	-	-
Capital projects	26,260	-	-
Total governmental activities	749,572	25,978	184,983
Business type activities:			
Water	175,255	142,496	-
Sewer	127,001	129,626	-
Solid waste	109,828	114,001	-
Storm sewer	1,216	9,667	-
Total business type activities	413,300	395,790	-
Total	\$ 1,162,872	421,768	184,983
<b>General receipts:</b>			
Property tax levied for:			
General purposes			
Debt service			
Licenses and permits			
Unrestricted interest on investments			
Bond proceeds			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
<b>Cash Basis Net Assets</b>			
Restricted:			
Streets			
Cemetery			
Library			
Debt service			
Capital projects			
Unrestricted			
Total cash basis net assets			

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(190,301)	-	(190,301)
54,514	-	54,514
(56,408)	-	(56,408)
(110,734)	-	(110,734)
(209,422)	-	(209,422)
(26,260)	-	(26,260)
(538,611)	-	(538,611)
-	(32,759)	(32,759)
-	2,625	2,625
-	4,173	4,173
-	8,451	8,451
-	(17,510)	(17,510)
(538,611)	(17,510)	(556,121)
355,482	-	355,482
209,069	-	209,069
4,865	-	4,865
16,070	194	16,264
493,400	-	493,400
48,686	8,961	57,647
1,127,572	9,155	1,136,727
588,961	(8,355)	580,606
35,484	346,681	382,165
\$ 624,445	338,326	962,771
\$ 171,360	-	171,360
17,201	-	17,201
47,442	-	47,442
(57,794)	-	(57,794)
270,321	-	270,321
175,915	338,326	514,241
\$ 624,445	338,326	962,771

**CITY OF LAKE CITY**  
**Statement of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the year ended June 30, 2006**

	General	Special Revenue		
		Road Use Tax	Employee Retirement	Emergency
Receipts:				
Property tax	\$ 261,064	-	87,161	7,257
Licenses and permits	4,865	-	-	-
Use of money and property	16,070	-	-	-
Intergovernmental	22,818	152,966	-	-
Charges for service	25,978	-	-	-
Miscellaneous	48,079	-	-	-
Total receipts	378,874	152,966	87,161	7,257
Disbursements:				
Operating:				
Public safety	190,301	-	-	-
Public works	-	98,927	-	-
Culture and recreation	108,949	-	-	-
General government	48,905	-	61,829	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	348,155	98,927	61,829	-
Excess (deficiency) of receipts over (under) disbursements	30,719	54,039	25,332	7,257
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Operating transfers in	7,257	-	-	-
Operating transfers out	-	-	-	(7,257)
Total other financing sources (uses)	7,257	-	-	(7,257)
Net change in cash balances	37,976	54,039	25,332	-
Cash balances beginning of year	73,712	117,321	38,895	-
Cash balances end of year	\$ 111,688	171,360	64,227	-
<b>Cash Basis Fund Balances</b>				
Reserved:	\$			
Debt service	-	-	-	-
Unreserved:				
General fund	111,688	-	-	-
Special revenue funds	-	171,360	64,227	-
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 111,688	171,360	64,227	-

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
209,069	-	-	564,551
-	-	-	4,865
-	-	1,124	17,194
-	-	-	175,784
-	-	-	25,978
607	-	8,075	56,761
209,676	-	9,199	845,133
-	-	-	190,301
-	-	-	98,927
-	-	4,979	113,928
-	-	-	110,734
209,422	-	-	209,422
-	26,260	-	26,260
209,422	26,260	4,979	749,572
254	(26,260)	4,220	95,561
-	493,400	-	493,400
-	-	-	7,257
-	-	-	(7,257)
-	493,400	-	493,400
254	467,140	4,220	588,961
(58,048)	(196,819)	60,423	35,484
(57,794)	270,321	64,643	624,445
(57,794)	-	-	(57,794)
-	-	-	111,688
-	-	-	235,587
-	270,321	-	270,321
-	-	64,643	64,643
(57,794)	270,321	64,643	624,445

**CITY OF LAKE CITY**  
**Statement of Cash Receipts, Disbursements**  
**and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the year ended June 30, 2006**

	Enterprise Funds				
	Water	Sewer	Solid Waste	Storm Sewer	Total
Operating receipts:					
Use of money and property	\$ 194	-	-	-	194
Charges for service	142,496	129,626	114,001	9,667	395,790
Miscellaneous	2,613	6,348	-	-	8,961
Total operating receipts	145,303	135,974	114,001	9,667	404,945
Operating disbursements:					
Business type activities	175,255	127,001	109,828	1,216	413,300
Total operating disbursements	175,255	127,001	109,828	1,216	413,300
Net change in cash balances	(29,952)	8,973	4,173	8,451	(8,355)
Cash balances beginning of year	125,430	149,852	61,927	9,472	346,681
Cash balances end of year	\$ 95,478	158,825	66,100	17,923	338,326
<b>Cash Basis Fund Balances</b>					
Unreserved	\$ 95,478	158,825	66,100	17,923	338,326

# CITY OF LAKE CITY

## Notes to Financial Statements

### June 30, 2006

#### Note 1 – Summary of Significant Accounting Policies

The City of Lake City is a political subdivision of the State of Iowa located in Calhoun County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, the City of Lake City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and

(1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Lake City's financial statements include financial information of the Lake City Library Foundation, which is a component unit that meets the Governmental Accounting Standards Board criteria.

#### Jointly Governed Organizations

The City also participates in a jointly governed organization that provides goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. A City official is a member of the Carroll County Landfill Commission.

#### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

**CITY OF LAKE CITY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2006**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation (Continued)**

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Emergency Fund is used to account for the emergency taxes levied.

Employee Benefits Fund is used to account for employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

The Storm Sewer Fund accounts for the operation and maintenance of the City's storm sewer system.

**CITY OF LAKE CITY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2006**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus and Basis of Accounting**

The City of Lake City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

**Note 2 – Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

**CITY OF LAKE CITY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2006**

**Note 3 – Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$21,933, \$21,876 and \$19,080 respectively equal to the required contributions for each year.

**Note 4 – Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 160,000	59,069	219,069
2008	165,000	51,285	216,285
2009	120,000	43,963	163,963
2010	125,000	38,827	163,827
2011	115,000	33,198	148,198
2012	120,000	28,557	148,557
2013	125,000	23,525	148,525
2014	130,000	18,133	148,133
2015	140,000	12,542	152,542
2016	145,000	6,452	151,452
Total	<u>\$1,345,000</u>	<u>315,551</u>	<u>1,660,551</u>

# CITY OF LAKE CITY

## Notes to Financial Statements (Continued)

### June 30, 2006

#### Note 5 – Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 12,972
Sick leave	<u>79,511</u>
Total	<u>\$ 92,483</u>

The liability has been computed based on rates of pay in effect at June 30, 2006.

#### Note 6 – Risk Management

The City of City of Lake City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 531 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2006 were \$35,034.

**CITY OF LAKE CITY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2006**

**Note 6 – Risk Management (Continued)**

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in the aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured.

Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the City's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 7 – Deficit Fund Balance**

The Debt Service Fund had a deficit fund balance of \$57,794 at June 30, 2006. The deficit balance is a result of omitting bond payments from the budget of prior years. The deficit should be eliminated by increasing the debt service levy.

**CITY OF LAKE CITY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2006**

Note 8 – Interfund Transfers

The detail of the interfund transfer for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue: Emergency	<u>\$7,257</u>

Note 9 – Subsequent Event

Subsequent to June 30, 2006 the City paid \$415,377 from the Capital Projects Fund for the 2006 street improvement project.

**CITY OF LAKE CITY**  
**Budgetary Comparison Schedule of Receipts, Disbursements,**  
**and Changes in Balances-Budget and Actual (Cash Basis)**  
**All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year Ended June 30, 2006**

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 564,551	-
Licenses and permits	4,865	-
Use of money and property	17,194	194
Intergovernmental	175,784	-
Charges for services	25,978	395,790
Miscellaneous	56,761	8,961
Total receipts	<u>845,133</u>	<u>404,945</u>
Disbursements:		
Public safety	190,301	-
Public works	98,927	-
Culture and recreation	113,928	-
General government	110,734	-
Debt service	209,422	-
Capital projects	26,260	-
Business type activities	-	413,300
Total disbursements	<u>749,572</u>	<u>413,300</u>
Excess (deficiency) of receipts over (under) disbursements	95,561	(8,355)
Other financing sources (uses), net	<u>493,400</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	588,961	(8,355)
Balances beginning of year	<u>35,484</u>	<u>346,681</u>
Balances end of year	<u><u>\$ 624,445</u></u>	<u><u>338,326</u></u>

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
564,551	565,390	565,390	(839)
4,865	4,040	4,040	825
17,388	5,400	5,400	11,988
175,784	178,090	178,090	(2,306)
421,768	414,200	414,200	7,568
65,722	10,550	10,550	55,172
1,250,078	1,177,670	1,177,670	72,408
190,301	233,209	233,209	42,908
98,927	156,150	156,150	57,223
113,928	121,325	121,325	7,397
110,734	111,350	111,350	616
209,422	205,208	205,208	(4,214)
26,260	350,000	350,000	323,740
413,300	412,200	412,200	(1,100)
1,162,872	1,589,442	1,589,442	426,570
87,206	(411,772)	(411,772)	498,978
493,400	350,000	350,000	143,400
580,606	(61,772)	(61,772)	642,378
382,165	368,641	368,641	13,524
962,771	306,869	306,869	655,902

## **CITY OF LAKE CITY**

### **Notes to Required Supplementary Information – Budgetary Reporting June 30, 2006**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

**CITY OF LAKE CITY**  
**Statement of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the year ended June 30, 2006**

	<u>Permanent</u>		
	<u>Cemetery</u>	<u>Lake City</u>	
	<u>Perpetual</u>	<u>Library</u>	
	<u>Care</u>	<u>Foundation</u>	<u>Total</u>
Receipts:			
Use of money and property	\$ -	1,124	1,124
Miscellaneous	340	7,735	8,075
Total receipts	<u>340</u>	<u>8,859</u>	<u>9,199</u>
Disbursements:			
Operating:			
Culture and recreation	-	4,979	4,979
Total disbursements	<u>-</u>	<u>4,979</u>	<u>4,979</u>
Net change in cash balances	340	3,880	4,220
Cash balances beginning of year	<u>16,861</u>	<u>43,562</u>	<u>60,423</u>
Cash balances end of year	<u>\$ 17,201</u>	<u>47,442</u>	<u>64,643</u>
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Permanent fund	<u>\$ 17,201</u>	<u>47,442</u>	<u>64,643</u>
Total cash basis fund balances	<u>\$ 17,201</u>	<u>47,442</u>	<u>64,643</u>

**CITY OF LAKE CITY**  
**Statement of Cash Receipts, Disbursements and**  
**Changes in Cash Balances**  
**Capital Projects Fund**  
**As of and for the year ended June 30, 2006**

	Fire Station	Street Construction	Total
Receipts:			
Miscellaneous	\$ -	-	-
Total receipts	-	-	-
Disbursements:			
Capital projects	-	26,260	26,260
Total disbursements	-	26,260	26,260
Excess (deficiency) of receipts over (under) disbursements	-	(26,260)	(26,260)
Other financing sources:			
Bond proceeds	-	493,400	493,400
Total other financing sources	-	493,400	493,400
Net change in cash balances	-	467,140	467,140
Cash balances beginning of year	(102,010)	(94,809)	(196,819)
Cash balances end of year	\$ (102,010)	372,331	270,321
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Capital projects fund	\$ (102,010)	372,331	270,321
Total cash basis fund balances	\$ (102,010)	372,331	270,321

**CITY OF LAKE CITY**  
**Schedule of Indebtedness**  
**Year Ended June 30, 2006**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Street improvement	07-01-96	4.90 - 5.50 %	\$ 300,000
Street improvement	05-01-98	4.15 - 4.70	330,000
Street improvement	05-01-00	5.00 - 5.70	350,000
Municipal building	09-01-02	2.25 - 4.70	300,000
Street improvement	05-01-04	2.70 - 4.30	350,000
Street improvement	05-15-06	4.05 - 4.45	505,000
Total			
Fire truck lease	10-12-95	6.00 %	\$ 128,000

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	65,000	-	65,000	-	3,575	-
	170,000	-	40,000	130,000	7,917	-
	195,000	-	35,000	160,000	10,803	-
	225,000	-	25,000	200,000	9,472	-
	350,000	-	-	350,000	12,655	-
	-	505,000	-	505,000	-	-
\$	1,005,000	505,000	165,000	1,345,000	44,422	-
\$	8,355	-	8,355	-	250	-

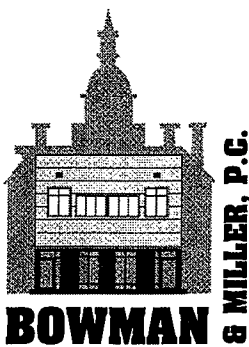
**CITY OF LAKE CITY**  
**Bond and Note Maturities**  
**June 30, 2006**

<u>Year</u> <u>Ending</u> June 30,	General Obligation Bonds and Notes			
	Street Improvement		Street Improvement	
	Issued May 1, 1998		Issued May 1, 2000	
	Interest Rates	Amount	Interest Rate	Amount
2007	4.65%	\$ 65,000	5.45%	\$ 35,000
2008	4.70%	65,000	5.50%	40,000
2009	-	-	5.60%	40,000
2010	-	-	5.70%	45,000
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
2014	-	-	-	-
2015	-	-	-	-
2016	-	-	-	-
Total		\$ <u>130,000</u>		\$ <u>160,000</u>

Municipal Building			Street Improvement		Street Improvement			
Issued Sept. 1, 2002			Issued May 1, 2004		Issued May 15, 2006			
Interest			Interest		Interest			
Rate	Amount		Rate	Amount	Rates	Amount		Total
3.75%	\$ 25,000		2.70%	\$ 35,000	-	\$ -	\$	160,000
4.00%	25,000		3.05%	35,000	-	-		165,000
4.15%	30,000		3.30%	50,000	-	-		120,000
4.30%	30,000		3.55%	50,000	-	-		125,000
4.45%	30,000		3.80%	55,000	4.05%	30,000		115,000
4.60%	30,000		4.00%	55,000	4.15%	35,000		120,000
4.70%	30,000		4.15%	55,000	4.25%	40,000		125,000
-	-		4.30%	15,000	4.30%	115,000		130,000
-	-		-	-	4.35%	140,000		140,000
-	-		-	-	4.45%	145,000		145,000
	<u>\$ 200,000</u>			<u>\$ 350,000</u>		<u>\$ 505,000</u>	\$	<u>1,345,000</u>

**CITY OF LAKE CITY**  
**Schedule of Receipts By Source and Disbursements by Function-**  
**All Governmental Funds**  
**For the Last Four Years**

	2006	2005	2004	2003
Receipts:				
Property tax	\$ 564,551	550,640	615,975	613,131
Intergovernmental	175,784	296,730	179,138	201,028
Licenses and permits	4,865	4,218	4,138	3,772
Use of money and property	17,194	7,352	7,415	10,280
Charges for services	25,978	19,341	15,873	19,603
Bond proceeds	493,400	-	341,500	293,000
Miscellaneous	56,761	40,253	66,809	26,312
Total	<u>\$ 1,338,533</u>	<u>918,534</u>	<u>1,230,848</u>	<u>1,167,126</u>
Disbursements:				
Operating:				
Public safety	\$ 190,301	303,633	180,490	218,242
Public works	98,927	137,946	126,072	132,233
Culture and recreation	113,928	142,335	124,553	127,450
General government	110,734	112,907	116,052	103,158
Debt service	209,422	213,215	259,465	278,387
Capital projects	26,260	72,781	380,347	141,144
Total	<u>\$ 749,572</u>	<u>982,817</u>	<u>1,186,979</u>	<u>1,000,614</u>



C E R T I F I E D   ♦   P U B L I C   ♦   A C C O U N T A N T S

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Independent Auditors' Report on  
Internal Control over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Governmental Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Lake City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 3, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with generally accepted in the United States of America auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Lake City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Lake City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

### Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the City of Lake City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts, and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Lake City and other parties to whom the City of Lake City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Lake City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Bowman and Miller, P.C.*

Marshalltown, Iowa  
October 3, 2006

**CITY OF LAKE CITY**  
**Schedule of Findings (Continued)**  
**Year Ended June 30, 2006**

**Part I: Summary of the Independent Auditors' Results:**

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**CITY OF LAKE CITY**  
**Schedule of Findings (Continued)**  
**Year Ended June 30, 2006**

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-06 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. In instances where it is not possible to segregate duties the City should utilize administrative personnel to provide additional internal control through review of financial transactions and report.

Response – The noted areas will be reviewed to identify duties that could be handled by other personnel or council members.

Conclusion – Response accepted.

**Part III: Other Findings Related to Statutory Reporting:**

III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the debt service and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Improvements to fund balance reports are being made to help the City monitor balances in a more timely and accurate manner.

Conclusion – Response accepted.

III-B-06 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 24, 1979.

III-C-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**CITY OF LAKE CITY**  
**Schedule of Findings (Continued)**  
**Year Ended June 30, 2006**

III-D-06 Business Transactions – During the year ended June 30, 2006, there were no business transactions between the City and City officials or employees were noted.

III-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-06 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

III-G-06 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-H-06 Financial Condition – The City had a deficit balance in the Debt Service Fund.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return this to a sound financial position.

Response – We will seek solutions to these deficits.

Conclusion – Response accepted.

## **CITY OF LAKE CITY**

Staff

This audit was performed by:

Bowman & Miller, P.C.  
Certified Public Accountants  
Marshalltown, IA 50158

Personnel:

James R. Bowman, CPA, Manager

Lowen K. Poock, PC